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VIEW CURRENT ISSUE

SUPER MARKET

Logistics Insight Asia, 1/9/2008

The retail landscape across Asia is transforming and bringing with it significant demand for logistics services.
G VENKATESH reports.



When one talks of logistics in the manufacturing and process sectors, there is the inbound one which comprises movement and en-route warehousing of raw materials and semi-finished components; and the outbound one which deals with finished products wending their way to the consumers.

However, for the last-but-one link in the supply chain – the retail sector – there is just the inbound logistics to think about, as outbound is the responsibility of the end-user who would transport his purchases home by whatever mode of transport he wishes (of course, in the case of e-shopping or 'e-tailing', there is a courier component which the enduser pays for).

When we discuss the inbound logistics in the retail sector, we are talking about how fast-moving consumer- goods (FMCG) like food products, apparel, footwear, jewellery and watches, hygiene and beauty care products, automotive consumables like engine oils, lubricants, etc., books, gifts, stationery items. are moved from manufacturing sites, the wholesale market, and distributors for access by the shopper.

The points of sale include encompass malls, speciality stores, convenience stores, discount stores, multibrand outlets, hypermarkets and supermarkets, pharmacies, liquor stores. etc. The proportions however, will vary from country to country, depending on the extent of economic development and affluence.

Transporting the products is one thing, and inventory management within the retail outlet (labeling shelves for easy access, tracking stock and order placement for replenishment, monitoring unsold products for expiry dates, waste handling, etc) is another.

Moving upstream, the warehousing component is either handled by distributors that function as independent entities; by 3PLs that are contracted by the retail sector to carry out their logistics operations; or by retail sector players that would rather manage their logistics operations themselves.

Retail logistics, then, is simply the movement, storage, monitoring and replenishment of products. Easier said than done, however. Both organized retail



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and unorganized retail, it goes without saying, entails logistics operations – be it the small shopkeeper or the street-vendor personally transporting his wares from the wholesale market; or hypermarkets sub-contracting the services to a third-party logistics service provider. There is time, money and energy (vehicle fuel included) spent on moving materials to the 'spot of final sale'.

ASIA GETTING RICHER

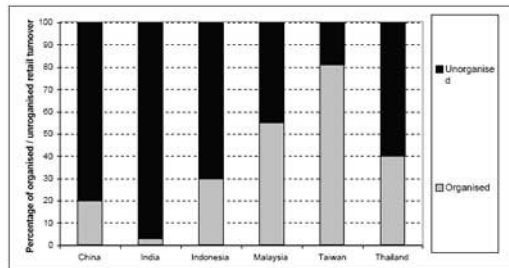
As a nation's GDP grows at a faster rate than its population, it gets richer – when affluence is measured in terms of GDP per capita as it is generally done. Affluence gives rise to consumerism, and that is exactly what is happening in many parts of Asia these days, giving a prop to the retail sector in many parts of the continent.

Retail business can be categorized broadly into organized and unorganized; the latter accounting for a lion's share of the retail sector in most Asian countries. Unorganized retail encompasses the small shopkeepers, street vendors and hawkers. It is not surprising that they account for sizable proportions of the total retail sector turnover, if you spend a week in a city in India or China for instance and observe shopping patterns of people.

The degree of organization in the retail sector certainly affects the nature of the retail logistics that prevails in a country. While the unorganized sector is highly fragmented and has a plethora of small and medium-sized players, each possibly having its own barebones logistics operations – vehicles owned and operated by employed personnel, it is the organized sector which has the wherewithal (read financial muscle) to sub-contract logistics operations to 3PLs, and invest in automating the inventory management modules.

With India, China and Indonesia together housing over 40 percent of the global population, there is a possibility for investments in organized retail. This however, will be at the expense of some of the small shopkeepers who make a modest living by selling their wares but are often hard pressed to stock their shops with everything that customers may need. Reliability of supply can be better ensured by the organized retail sector, which will have a more robust logistics system in place.

In 2005, only three percent of retail in India was organized, but this figure is expected to rise to 22 percent by 2010. It is not too surprising then to understand why India has been ranked by AT Kearney in its Global Retail Development Index as the most attractive destination for investment in the retail business.



[Relative proportions of organized and unorganized retail sector components across Asia.]



[Rising income levels and urbanization are set to change the face of retailing in Asia.]

A paradigm shift from traditional retail to modern organized retail has begun even in the second and third tier cities in the country. It also explains why the likes of Wal-Mart, French Connection, Tommy Hilfiger, Costa Coffee, Calvin Klein are very keen on infusing FDI into the country. Some have already entrenched themselves in the country and are availing of opportunities to lengthen their chains, so to say; by bonding and branding.

In markets like Singapore, according to Todd Johnson of Menlo Worldwide, the rising levels of affluence have prompted investors to pump money into the wine and spirits markets. In China, while the consumption of food and beverages will keep rising with both the population and the purchasing power increasing, Johnson points out that 'higher-end retail goods like branded apparel, footwear, electronics and home improvement products have also been 'leaving the shelves' at a brisk clip recently.'

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As Stephanie McKern of the Australian Logistics Academy points out to Logistics Insight Asia, RFID is still not totally entrenched in the retail sector. But there have been pioneers like the Dusseldorf-based Metro Group that have clearly proven that investments in RFID technology does benefit the bottom line eventually.

According to Metro's Moritz Zump, the assumption that only the big companies can benefit from RFID is incorrect: small and medium-sized companies stand to gain critical advantages by deploying the technology and cooperating with retailers. Beginning August 2006, Metro, which has 54 outlets in Asia, introduced RFID on carton and sub-carton level.

Rising fuel prices and carbon emissions associated with transportation have also been under the scanner. As a result, there is a keenness to consolidate orders ("shipment aggregation") and also an impetus for alternative fuels such as compressed natural gas (CNG), which has found favor in many parts of Asia.

McKern makes an interesting observation when she points out that if retail logistics are to be made "greener" with biofuels, the food that is transported on vehicles running on biofuels tends to get costlier, and that is certainly worrisome for the Asian populace.

Though retail logistics are facilitated largely by road (over 90 per cent in Asian countries), rail transport seems to have found favor of late, owing to a slew of advantages which one would certainly avail of in the wake of rising energy prices and the pressing need to reduce emissions.

Meanwhile, the America's Ozburn-Hessey Logistics, one of the largest privately-held 3PLs in the world, lists Straight Pooling, Shipment Aggregation, Shipment Consolidation, Continuous Moves and Cross-docking, as strategies to achieve multiple desirables – maximization of asset (vehicle capacity) utilization, minimizing empty miles, minimizing distance traveled (and thereby fuel consumed) per tonnage delivered.

DRIVING FACTORS

The developing nations of Asia may not exercise restraint as far as consumption is concerned, in the foreseeable future, as they claim their right to raise standards of living to those in the West. As long as people getting richer and have more and more disposable income, the demand for food, clothes, footwear, jewellery, toys, beauty care products, books, fashion and luxury items, etc, will rise rapidly.

While the retail sector makes hay while the sun shines in Asia, the ton-kilometers covered by trucks and trains to move material from manufacturer to mall, will keep increasing. Asset utilization will most likely improve at a brisk clip, as best practices are incorporated into logistics operations, while the fleet of vehicles deployed will grow at a relatively less rate. The equivalent of lean manufacturing in the industrial sector will soon be a sine qua non in the retail logistics sector.

While the market in the developing world is wide open for foreign direct investments in the retail sector and the retail logistics sector, it remains to be seen if there is a fragmented retail logistics sector, or the Rule of Three comes to prevail – with three major players accounting for a sizable bulk of the retail 3PL business. Smaller retailers may do well to manage their own modest logistics operations, while the medium-size ones may benefit by contracting their logistics operations to 3PLs.

Menlo Worldwide is of the opinion that market complexities are the driving forces behind influencing retail sector players to sub-contract their logistics operations and devote more time to their core businesses, and looks forward to garnering a few more contracts in Asia by the end of this year.

'THE RETAIL LOGISTICS LANDSCAPE IS SO DIVERSE'

STEPHANIE MCKERN, Australian academic and Member of the Advisory Board of the Logistics and Supply Chain Management Society (LSCMS), discusses key developments in the retail logistics sector with Logistics Insight Asia.



[Stephanie McKern]

Q: Does a promising market beckon logistics service providers in the Asian retail sector?

A: Euromonitor currently forecasts consumer packaged goods industry annual growth rates of nearly nine percent for China, six percent for India and a whopping 16 percent for Vietnam from 2006-2010. These growth statistics when compared to Europe or the US are significant. Some 3PLs see such potential in this area that they have segmented their in-country operations between manufacturing logistics and retail logistics.

However, as economists are pointing out, the retail consumption (final demand) from the rest of the world still contributes to the consumption of almost 70 percent of goods produced in Asia. While there are opportunities for Asia (including Southeast Asia) to consume more of its own products, this may not be able to fully compensate for the fall in the consumption in the US – the average American consumes nine times more than the average Chinese).

Q: With the environment increasingly taking centre stage, how is this affecting the retail logistics sector?

A: The focus has been more than just looking at costs – the green supply chain plays a significant role in retail logistics decisions. A recent survey sponsored by Kewill, found that 75 percent of the respondents who awarded logistics contracts included sections on environmental compliance in tender documents. Innovative solutions are expected in the months and years to come, to cut costs, improve efficiency and reduce carbon emissions.

Q: Has the retail logistics sector been a significant employment generator over the years?

A: One would be hard pressed to find figures on employment growth in the retail logistics sector specifically. However, as an industry, logistics is and will continue to be a growth sector, expanding at about double the rate of global GDP.

Q: How much has the logistics component affected the rise in food prices in the world market of late?

A: There is little doubt that rising transportation costs are already affecting food prices from two perspectives: the impact of fuel on transportation costs and that cost being passed on to the eventual consumer; and the profitability and desirability of biofuels – the world is “hungry” for an alternative to petrol, but there is a consequence of raising crops for fuel instead of food.

Q: Can you comment on the positive role played by software and IT tools in retail sector logistics?

A: Technology development in logistics has been incredible over the last 15-20 years and we are continuing to experience this development in areas like RFID. However, there are numerous hurdles (price being the key one), which prevents this from being entrenched firmly in the retail sector, despite the best efforts of firms like Walmart. Information technology continues to be better implemented with companies realising that it is the movement of information which permits fast, accurate and creative solutions for product movement.

Examples of this include crossdocking, route planning, improved vehicle utilisation, and communication over distances to ensure minimal impact of security screening on international shipments.

Without the quick movement, analysis and manipulation of information, some of the practices that we are now taking for granted (such as cross-docking) would not be possible.

Q: How would you assess the competitive environment with regards to local and foreign logistics service providers?

A: In countries like China, India and Indonesia, the retail logistics landscape is so diverse that one would be hard pressed to find one 3PL to provide a complete solution in a particular geography. Foreign players that tend to be seen as successful in this market may rely heavily on domestic 3PL capabilities, i.e. one may end up subcontracting one's logistics operations to a global 3PL company, but the entity providing the last-mile-solution will actually be a local provider.

In a discussion with a leading 3PL in Indonesia last week, a senior executive pointed out that his company has experienced an annual growth of 30 to 40 percent. Its strategy is to take over the last mile provision of logistics services from international brands that fail to deliver on their promises to their customers.

'WE ARE TOTALLY CONVINCED ABOUT THE POTENTIAL OF RFID'

Germany's Metro AG, the fourth largest retailer in the world, has been a pioneer in RFID implementation. Company spokesman MORITZ ZUMPFORT talks to Logistics Insight Asia.



Q: How extensive are Metro's operations in the Asia retail sector?

A: We are currently present in China, India, Japan, Pakistan and Vietnam, and together, these countries are home to 54 Metro Cash and Carry stores. With 37 outlets, the Chinese market drives Metro's fortunes in the continent.

Q: And the revenue generation from these 54 outlets?

A: Asia, needless to say, is one of the strongest growth regions for the Metro Group. In several emerging economies, affluence and buying power are developing at an extraordinarily dynamic rate. In 2007, Metro Cash & Carry, the selfservice wholesale brand, achieved sales of more than 1.8 billion euros (US\$2.6 billion) in Asia. We are convinced that this positive development will continue in the future.

Q: Does Metro have its own logistics operations or use third-party service providers for this purpose?

A: Modern supply chains are not established by Metro Cash & Carry alone, but in close collaboration with MGL Metro Group Logistics as well as MGB Metro Group Buying. Both are cross-divisional service companies for the entire Group. To a certain degree, Metro Cash & Carry also cooperates with external service providers (3PLs). However, we do not provide detailed information about the company's logistics and transportation partners.

It should be noted that up to 90 percent of Metro Cash & Carry's assortment is sourced from local producers and suppliers within the respective country. Especially in emerging markets – like India or Vietnam – this calls for the implementation of a modern and resilient supply chain. Hence we have established modern distribution centers, an efficient cold chain as well as state-of-the-art storing capacities wherever the wholesaler is doing business.

In several Asian countries, Metro Cash & Carry even conducts farmer and fishermen trainings in which the suppliers learn how to increase their yield as well as the quality of their products. In India, for instance, the company has already trained over 40,000 farmers and fishermen.

Q: Metro has been a pioneer in RFID implementation. But has this been effective in improving the efficiency of operations and reducing costs?

A: We are totally convinced about the potential of RFID to revolutionize the retail sector by enabling an improvement in supply-chain-wide efficiency, acceleration of processes like inflow of goods, augment the transparency of goods flows (seamlessly track the movement of goods from the manufacturer to the store), and reduction of inventory levels.

As the first retailing group in Germany to introduce RFID, the Metro Group started applying the technology along the entire supply chain in November 2004. The objective was the optimization of processes in logistics and warehouse management. To implement the technology, logistic units (pallets, packages and hangergoods shipments) were fitted with transponders. Since August 2006, RFID is also being used on smaller retail units as well – cartons and subcartons.

Through our recent initiative, Advanced Logistics Asia, we seek to demonstrate how RFID can optimize efficiency and transparency in its goods flows on an international scale as well.

It goes without saying that the logical outcomes of these benefits are reduction in costs, quality assurance and curbing of counterfeiting. With the passage of time, RFID will also be used at item level, which will facilitate "self check-outs" and make queuing at the counters for payment a thing of the past.

Numerous partners from the consumer goods industry are cooperating in the roll-out of RFID at the Metro Group by labeling their consignments with tags. These include international groups such as Procter & Gamble, Henkel and Johnson & Johnson, as well as medium-sized companies of the likes of PapStar and Lemmi Fashion.

The assumption that only the big companies can benefit from RFID is incorrect. Small and medium-sized companies stand to gain critical advantages by deploying the technology and cooperating with retailers. We therefore support our suppliers in the introduction of RFID by publishing guidelines, an RFID newsletter, and offer information on the Internet.

'CUSTOMERS ARE MORE WILLING TO OUTSOURCE LOGISTICS'

The needs of a complex market and the desire of customers to focus on their core business are boosting the demand for 3PL services, says TODD JOHNSON, Vice President – International, Menlo Worldwide Logistics.



[Todd Johnson]

Q: Which countries and industry sectors look set to contribute to good growth in the retail logistics business in Asia?

A: The retail sector in China is witnessing appreciable growth owing to the rise in purchasing power and increase in domestic consumption. The food and beverage sectors have been very strong performers in the past and will continue to be so. However, higher-end retail goods like branded apparel, footwear, electronics and home improvement products have also been "leaving the shelves" at a brisk clip recently.

In Singapore for one, we continue to see stronger growth in the wine and spirits sector, once again thanks to increasing affluence and the interest thereby of the investors in premium wines. Further, Singapore has also positioned itself as a premier distribution hub on both the air and ocean transportation networks of the world, with good logistics infrastructure like chilling facilities.

Q: Any new alliances or contracts to speak of for Menlo in the retail sector?

A: Our acquisitions in China and Southeast Asia are well into or nearly complete with their integration with Menlo. We see this already providing us with a strong platform and inroads to providing logistics support to clients in the retail sector. Many of our clients have a mixed model of both retail and business-to-business activity which requires that the solutions we provide to them be flexible enough to accommodate the different channels.

We acquired Cougar last year in Singapore, and it has now been rebranded under the Menlo banner. And we do have several promising opportunities in the Asian region in the pipeline, and we believe that we would avail of some of these by the end of 2008.

Q: In general, are retail logistics predominantly by road?

A: Yes, in China, Singapore, Malaysia, Australia and Thailand, over 90 percent of the transportation occurs by road. Within China, there are a few domestic airlines (to serve some urgent needs or remote areas) and we are seeing more and more use of rail and inland waterways to handle some of the restocking activity to reduce transport costs and minimize the impact of fuel surcharges.

Ocean is the preferred mode of transportation for finished products to the retail sector, into and out of Singapore. And despatch of samples or prototypes to fashion houses and factories typically happens by air.



[Companies in Asia can leverage on the readily available logistics infrastructure of the 3PLs instead of building their own, says Johnson.]

Q: How is this for Menlo in Asia?

A: Menlo provides managed transportation solutions to clients in China, and this includes moving goods on our own fleet of trucks as well as managing subcontractors and undertaking domestic freight forwarding by air, rail or water. In Singapore, we have a combination of both management and execution, and operate our own fleet of road vehicles, In Malaysia, Australia and Thailand, we rely on subcontractors.

Q: What has been the impact of the rise in fuel prices?

A: There has been noticeable impact on the cost of delivery solutions to the clients due to the rise in fuel costs, and this has prompted many customers to re-evaluate their supply chains. Menlo, on its part, has helped to optimize some lanes, routings, and consolidations to reduce total freight costs.

However, in general, the rise in fuel costs is passed from our subcontractors and fleet operators to the 3PLs, from the 3PLs to our clients, and from our clients eventually these escalating costs will have an impact on the prices consumers pay for goods.

In Singapore, transportation cost is a major and key component of the distribution cost. Increases in fuel expense in Singapore, Malaysia and Thailand has caused an increase in the landed cost of goods. In response to this development, clients have evinced interest in order consolidation and alternative fuel solutions.

Q: In Asia, how open are retail sector players to subcontract logistics operations to 3PLs?

A: Customers are willing to outsource due to the complexity of the market (and different sub-markets/regions) within China and desire to focus their investments – in time, energy, money – on their core businesses, rather than building, sometimes from square one, the logistics infrastructure they would require individually.

Q: Any stark differences you have witnessed from country to country?

A: Not really. Though the general trends are fairly similar, the solutions need to be tailor-made a bit to suit the variations in regulations, business practices, import/export laws and also the level of development in the logistics marketplace.

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